

2560. MEDICAID FUNDING LIMITATIONS POLICY

In recent years, Congress and the Executive Branch have become increasingly concerned about the impact on Federal budget projections and outlays exerted by State claims for reimbursement which are submitted long after expenditures are incurred. In response to this problem, Congress enacted Public Law 96-86 which imposed a restriction on payment of prior period claims from current appropriations, essentially barring payment of claims for expenditures incurred before a specified date. That restriction, to a certain degree, has been included in every appropriation and continuing resolution that has been enacted since Public Law 96-86. A comparable restriction has also been enacted in the Child Welfare Reform Act (Public Law 96-272) and in the regulations dealing with payment of prior period claims.

2560.1 Authority

Public Law 96-272 and 45 CFR Part 95 Time Limits for States to File Claims, Social Security Act, Section 1132.

2560.2 Statement of Policy

The Health Care Financing Administration (HCFA) will pay to a State the Federal share of expenditures incurred, under an approved State plan and in accordance with Title XIX of the Social Security Act, 45 CFR Part 95, and pertinent appropriation laws, if claims for these expenditures are filed within the following timeframes:

A. Pre-Fiscal Year 1980 Expenditures.--Expenditures made prior to October 1, 1979 must have been claimed by May 15, 1981, unless they meet one of the exceptions specified below.

B. Fiscal Year 1980 and Later Expenditures.--Expenditures made on or after October 1, 1979, must be claimed within 2 years after the calendar quarter in which the State agency made the expenditure unless they meet one of the following exceptions.

2560.3 History of Exceptions

Public Law 96-272 established four exceptions to the above general rules; (1) Adjustment to prior year costs; (2) Audit exceptions; (3) Court-ordered retroactive payments; and (4) "Good Cause." This law has been incorporated into the Social Security Act at Section 1132 and further clarified in regulations found at 45 CFR Part 95, Subpart A.

Although the regulations at 45 CFR 95.4 give general definitions applicable for a number of programs, it was necessary to further interpret these definitions in light of specific situations encountered in managing the Medicaid program.

2560.4 Medicaid Interpretation of Exceptions Defined in 45 CFR Part 95A. Adjustments to Prior Year Costs.--

1. General Definition (45 CFR 95.4).--"Adjustment to prior year costs means an adjustment in the amount of a particular cost item that was previously claimed under an interim rate concept and for which it is later determined that the cost is greater . . . than that originally claimed."

2. Medicaid Application.--Adjustments to prior year costs for public providers are adjustments to expenditures that are made based on an interim rate which is subject to final cost settlement provided that the interim rate is claimed within 2 years after the quarter in which the expenditure was made.

B. Audit Exception.--

1. General Definition (45 CFR 95.4).--"Audit exception means a proposed adjustment by the responsible Federal agency to any expenditure claimed by a State by virtue of an audit."

2. Medicaid Application.--Audit exceptions include only adjustments to public providers for expenditures previously claimed under various Federally assisted programs that are made as the result of an independent audit finding which has been adopted by the Office of the Inspector General Audit Agency or an audit finding by the General Accounting Office and considered programmatically allowable by HCFA.

C. Court-Ordered Retroactive Payment.--

1. General Definition (45 CFR 95.4).--"Court-ordered retroactive payment means either a retroactive payment the State makes to an assistance recipient or an individual, under a Federal or State court order or a retroactive payment we make to a State under a Federal court order. Although we may accept these claims as timely, this provision does not mean that we necessarily agree to be bound by a State or Federal decision when we were not a party to the action."

2. Medicaid Application.--Same as above general definition in 45 CFR 95.4.

D. Good Cause.--

1. General Definition (45 CFR 95.22).--"Good Cause - late filing of a claim due to circumstance beyond the State's control and allowed by the Secretary."

2. Medicaid Application.--Late claims filed by the States due to circumstances beyond their control may be paid if the Secretary determines that "good cause" existed for the State not filing the claims timely. Actions such as these should be reported on the HCFA-64 expenditure report as prior period claims.

- E. Timely Filing.--A claim is timely filed if it is received by the Health Care Financing Administration's Medicaid Central Office within the stipulated time frame. States must be able to document the date the expenditure report (HCFA-64) was submitted to HCFA Central Office.

A claim for a Federal Medical Assistance Payments rate adjustment related to Medicaid Management Information System reimbursement is payable at the higher matching rate upon certification of the system authorizing the higher matching rate. Such claims for higher matching must be filed within 2 years after the calendar quarter in which HCFA notifies the State that the system is certified.

F. State Agency.--For the purpose of expenditures for financial assistance under Title XIX, "State Agency" means any agency of the State, including the State Medicaid agency, its fiscal agents, a State health agency, or any other State or local organization which incurs matchable expenses; for purposes of expenditures under all other titles, see the definitions in the appropriate program's regulations. (45 CFR 95.4)

G. Other Definitions.--

1. Expenditure.--An expenditure occurs when cash or its equivalent is actually paid in the current quarter by an agency of the State. In the case of noncash items, a current expenditure occurs at the time of the appropriate accounting transaction by any agency of the State.

a. Expenditures for services are made in the quarter in which any State agency made a payment to the service provider (45 CFR 95.13(b):

(1) Public Facility or Provider.--the expenditure is made when it is paid or recorded, whichever is earlier, by any State agency. Public providers are those that are owned or operated by a State, county, city or other local government agency or instrumentality.

(2) Non-public Facility or Provider.--the expenditure is incurred when paid by any State agency.

b. Expenditures for training and administration are incurred in the quarter payment was made by a State agency to a private agency or individual, or in the quarter to which the costs were allocated in accordance with program regulations, whichever is earlier. We consider a State agency's expenditure under this title for noncash expenditures such as depreciation to have been made in the quarter the expenditure was recorded in the accounting records of any State agency in accordance with generally accepted accounting principles.

2. "Federal financial participation" means the Federal government's share of an expenditure made by a State agency under any of the programs listed in Section 95.1" (45 CFR 95.4)

3. Provider.--Any individual facility, or entity furnishing Title XIX services under a provider agreement with the Medicaid agency.

4. "State" means the 50 States, the District of Columbia, Guam, Puerto Rico, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, American Samoa and the Trust Territories of the Pacific." (45 CFR 95.4)

5. "The Act" means the Social Security Act, as amended." (45 CFR 95.4)

6. "We, our and us" refer to HHS's Health Care Financing Administration, Office of Child Support Enforcement, Office of Human Development Services, or the Social Security Administration, depending on the program involved." (45 CFR 95.4)

2600. QUARTERLY BUDGET ESTIMATES - GRANTS TO STATES FOR MEDICAL ASSISTANCE PROGRAM

A. Background. --The Secretary of Health and Human Services is authorized by Congress under Title XIX of the Act to make funds available to the States for the purposes set forth in the annual Medicaid appropriation. To insure that adequate funds are available for the efficient operation of the Medicaid program, the Secretary has determined that budget estimates from the States shall be reported prior to the beginning of each quarter on Form HCFA-25, Medicaid Program Budget Report, for Medical Assistance Payments and Administration costs.

The revised Form HCFA-25 fulfills two of HCFA's most essential data needs for administering the Medicaid program:

- o It provides a statement of the State's funding requirements for the upcoming quarter and certifies the availability of the requisite State and local funds. This information is required for the issuance of a quarterly grant award to the State (in accordance with §1903(d)(1) of the Act).

- o Its schedules provide both the State's budget estimates and the assumptions underlying its projections for three fiscal years. This information is needed by HCFA to formulate and execute the national Medicaid budget as well as to forecast the potential impact of proposed legislation on the Medicaid program (in accordance with §1902(a)(6) of the Act).

B. Submission of Quarterly Budget Estimates. --Submit quarterly Forms HCFA-25 to both HCFA CO and the proper HCFA RO no later than May 15, August 15, November 15, and February 15. (See submission schedule in §2602.) While all quarterly submissions represent equally important components of the grant award cycle, the May and November submissions are significant for budget formulation. The May submission introduces a new fiscal year to the budget cycle and provides the Department a basis for legislative planning and strategy. The November submission serves as the basis for the formulation of the Medicaid portion of the President's Budget which is presented to the Congress in January. The February and August submissions are used primarily for budget execution in providing interim updates to the HCFA Office of Budget and Administration (OBA), the Department, OMB, and/or the Congress depending on the scheduling of the national budget review process in a given fiscal year. They provide HCFA with the information necessary to track current year expenditure levels in relation to the current year appropriation and to notify senior managers of any impending budget surpluses or deficits. This function has taken on increasing significance in recent years as a result of budget constraints and dynamic changes in health care delivery system costs.

C. Reporting Requirements. --Base all expenditures, recipient counts, etc., reported on Form HCFA-25 schedules, on those expenditures and counts which are computable for Federal funding. The period covered by all estimates is the Federal fiscal year (October 1 through September 30).

Exclude State Survey and Certification estimates from the Form HCFA-25 schedules. Except for forms HCFA-25F, G and H, round all amounts to the nearest whole thousand. States not using the Medicaid Budget and Expenditure System (MBES) must complete Forms HCFA-25A, C, D, D.1, D.2, D.3, F, G, H, I, I.1, I.2, I.3, J(1) and J(2) in their entirety for each quarterly submission.

Adjusted actual expenditures, as reported on line 11 of the Form HCFA-64 (Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program) Summary Sheet, serve as the basis for all expenditure projections. The Medical Assistance Payment estimates reported on Form HCFA-25D and the State and Local Administration estimates reported on Form HCFA-25I reflect projected expenditures

for each fiscal year. Report significant aberrations in the normal cash requirements projected on Forms HCFA-25D and I on Form HCFA-25C. (See §2600.2 for explanation of cash flow adjustments to be reported).

The costs per unit of service reported on Form HCFA-25F and the total number of units of service reported on Form HCFA-25H must translate to the Medical Assistance Payment estimates reported on Form HCFA-25D. The estimated unduplicated recipients count reported on Form HCFA-25G are required by HCFA for various actuarial projections and long-range planning purposes. Maintain documentation and supporting workpapers relating to the assumptions, rationale, and calculations used in the development of the State's estimates (e.g., deviation of trends, details of computations, program/policy changes) for at least 1 year and make them available upon request.

D. Automated Reports. --The automated MBES has been implemented nationwide. This system allows you to electronically submit your Form HCFA-25 directly to the HCFA Data Center and the Medicaid data base. You were trained by HCFA staff in the use of the MBES and have the required user's manual, user ID number, access codes, telephone number and computer software necessary to access and use the system.

When using the MBES, you no longer have to submit a hard copy of the signed certification statement to HCFA with your Form HCFA-25 submission. Refer to §2600.1.C and D for additional detail.

E. Supplemental Grant Awards. --If the estimates originally submitted for the current quarter prove to be lower than the amount required as the quarter progresses, notify the HCFA RO and prepare a revised Form HCFA-25 using the MBES system. This can be done by modifying the Form HCFA-25 for the current submission and the previous submission and transmitting these modifications to CO. You do not need to send any hard copy documents. The correct procedure is:

1. Release the appropriate Form HCFA-25 from check back,
2. Delete Forms HCFA-25A and HCFA-25C,
3. Modify the contents of the Form(s) HCFA-25D, I or both,
4. Initiate a new check back process, and
5. Notify the HCFA RO, or your CO contact, of the revision.

If you have already submitted the Form HCFA-25 for the present quarter, it also must be revised to:

- o Include the current quarter's revised estimate, and
- o Incorporate any impact projected for future quarters.

Notify the RO or CO of this modification.

Documentation of a supplemental request consists of at least one month's expenditures in the current quarter and an explanation of the difference between the original and the revised estimates. This documentation must be made available to the RO representative upon request. CO must receive the revised Form HCFA-25 through MBES no later than 10 (ten) calendar days before the end of the quarter.

If the estimate submitted for the current quarter proves substantially higher than the amount actually required, notify the RO no later than 10 calendar days before the end of the quarter so that a negative supplemental award can be issued. Do not submit forms or documentation in such cases.

F. Forms Transmittal. --You are no longer required to mail your Forms HCFA-25 to CO. With the enhancements provided by the MBES system, it is now faster and more convenient to prepare the Form HCFA-25 and transmit it to the CO. You are encouraged to use MBES for each submission. If you require blank copies of Form HCFA-25, you may obtain them from your RO or:

Health Care Financing Administration
Division of Financial Management, OMM, MB
Room 281 East High Rise
P.O. Box 26678
Baltimore, MD 21207

2600.1 Form HCFA-25A, Medicaid Program Budget Report - Quarterly Distribution of Funding Requirements. --The MBES generates this form during the check back process based on the data you have input on the Form HCFA-25D.1 to D.3 and the Form HCFA-25I.1 to I.3. The submission date is machine supplied. Dollar amounts are rounded to the nearest thousand. The MBES system updates each quarterly submission with actual expenditure data taken from the latest Form HCFA-64, Quarterly Medicaid Expenditure Reports. If you have entered any cash flow adjustments on Form HCFA-25C, you must revise the totals on the Form HCFA-25A.

A. Column Headings. --This reflects the estimated Medical Assistance Payments for the Medical Assistance Program by quarter for FY 1 and FY 2. (See §2602 for designation of fiscal years to report.)

Column A is the total estimated payments computable for Federal funding for each quarter reported.

Column B is the estimated Federal share for each quarter reported.

Column C is your share for each quarter reported. Compute this figure by subtracting Column B from Column A.

Report the estimated State and Local Administration expenditures for the Medical Assistance Program by quarter for FY 1 and FY 2.

Column D is the total estimated payments computable for Federal funding for each quarter.

Column E is the estimated Federal share of expenditures for each quarter.

Column F is your share for each quarter. Compute this figure by subtracting Column E from Column D.

B. Line Headings. --This reflects each quarter's share of estimated Medical Assistance Payments and State and Local Administration expenditures for FY 1.

Line 1 is the first quarter's share of Medical Assistance Payments and State and Local Administration expenditures.

Line 2 is the second quarter's share of Medical Assistance Payments and State and Local Administration expenditures.

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Line 3 is the third quarter's share of Medical Assistance Payments and State and Local Administration expenditures.

Line 4 is the fourth quarter's share of Medical Assistance Payments and State and Local Administration expenditures.

Line 5 is the total estimated Medical Assistance Payments and State and Local Administration expenditures. Enter the sum of lines 1, 2, 3, and 4.

This reflects each quarter's share of estimated Medical Assistance Payments and State and Local Administration expenditures for FY 2.

Line 6 is the first quarter's share of Medical Assistance Payments and State and Local Administration expenditures.

Line 7 is the second quarter's share of Medical Assistance Payments and State and Local Administration expenditures.

Line 8 is the third quarter's share of Medical Assistance Payments and State and Local Administration expenditures.

Line 9 is the fourth quarter's share of Medical Assistance Payments and State and Local Administration expenditures.

Line 10 is the total estimated Medical Assistance Payments and State and Local Administration expenditures. Enter the sum of lines 6, 7, 8, and 9.

C. Certification. --The MBES generates the correct amount for you to certify for the quarter. States participating in the Annual Grant Award Project must manually alter the Form HCFA-25A to include an annual certified amount.

The signature/certification form appears on the screen during the check back process. Complete the information requested and the certification is transmitted as part of the Form HCFA-25. CO accepts this automated signature/certification in lieu of a separate hardcopy submission. However, you must keep actual signed copies of the signature/certification forms in your files that can be made available to HCFA upon request for each Form HCFA-25 you submit over the MBES system (including supplemental requests and revisions).

If the amount of State funds certified as currently available is not sufficient to cover the non-Federal share of the projected expenditures (excluding any balance of allowances received from the Federal Government), the certification must contain a statement indicating the source from which the rest of the funds will be derived and when they will be available.

NOTE: The territories must match the Federal share at the appropriate matching rates and the certification must be the total computable amount less the Federal share. However, when the territory reaches its ceiling limitation imposed by Congress, the Federal share is either the lower of the total computable times the Federal Medical Assistance Percentage (FMAP) rate or the difference between the ceiling and what has been issued in grant award authority. In the latter case, the amount certified is less than the difference between the total computable amount and the Federal Share.

D. Signature of the Executive on the Form HCFA-25. --In the space provided at the bottom of the Form HCFA-25A, affix the original signature of the Executive Officer of the State agency (SA) together with the officer's official title, and the date the estimate is submitted. Only the first copy need be hand signed. The Executive Officer must be the head of the SA or a person officially

designated by the agency head as authorized to sign. The signed estimate serves as certification by you that the information has been carefully prepared, presents as realistically as possible, an estimate of the expenditures to be incurred, and is an accurate statement of the State and local funds available for the period of the estimate.

Form HCFA-25A Cross Reference

Lines 5 and 10 must equal Form HCFA-25C, lines 4 and 8 for FY 1 and FY 2.

THIS PAGE RESERVED FOR
MEDICAID PROGRAM BUDGET REPORT
QUARTERLY DISTRIBUTION OF FUNDING REQUIREMENTS
(IN THOUSANDS) CHART
PAGE 1

2600.2 Form HCFA-25C, Medicaid Program Budget Report - Statement of Annual Cash Flow Differences. --This form is generated by MBES during the check back process. All dollar amounts are rounded to the nearest thousand.

This form explains the differences between cash requirements and budget estimates which occur when unusual circumstances affect the routine payment of bills. Some examples include unanticipated audit settlements, court actions, rate adjustments, slowdown in the number of claims paid due to a changeover to a new computer system or fiscal agent, prior period adjustments for hospital or nursing home final settlements, and other increasing or decreasing cash adjustments which are not due to changes in price, recipient or utilization assumptions. If factors such as these affect the normal rate of bill payments between Federal fiscal years, show the impact of these items in order to track from the budget forecast, which is based on current service estimates, to actual cash requirements for the initial grant awards.

For example, if you have contracted with a new fiscal agent during the last quarter of a fiscal year, it may be expected that a temporary slowdown in claims payments of \$20 million (total computable) occurs in that fiscal year. These claims are paid in the subsequent fiscal year. Therefore, enter -\$20 million in the appropriate fiscal year column and +\$20 million in the subsequent fiscal year column. List the type of cash adjustment under the space provided in the block for line 1, Medical Assistance Payments. Another example is a one-time audit settlement requiring the State to reimburse certain providers which were underpaid according to the audit by \$100 million (total computable). Enter +\$100 million in the column for the fiscal year during which it is paid out. For each, enter the cash adjustment for total computable in columns A, B, or C and enter the appropriate Federal share portion in columns D, E, or F.

A. Column Headings for Columns A, B, and C. --Enter the total amounts computable for Federal funding of the cash flow adjustments and estimates for each fiscal year. (See §2602 for designation of fiscal years to report.)

Columns D, E, and F. --Enter the Federal share of the cash flow adjustments and estimates for each fiscal year.

B. Line Headings for Line 1. --Enter the reason(s) for cash flow variances related to Medical Assistance Payments under the space provided in the block. Report the total computable and Federal share amounts associated with each item reported under the appropriate columns. Precede positive amounts for increased cash requirements by a plus sign (+), and negative amounts for decreased cash requirements by a minus sign (-).

Line 2 - Enter the net total of cash flow adjustments entered under line 1. This line equals the signed algebraic sum of line 1.

Line 3 - Enter the total computable and Federal share amounts of the Medical Assistance Payment estimates reported on line 28 of Form HCFA-25D for the appropriate fiscal year.

Line 4 - Enter the net total of lines 2 and 3; i.e., the fiscal year program estimates plus or minus the cash flow adjustments.

Line 5 - Enter the reason(s) for cash flow variances related to State and Local Administration expenditures under the space provided in the block. Report the total computable and Federal share amounts associated with each item under the appropriate columns. Precede positive amounts for increased cash requirements by a plus sign (+), and negative amounts for decreased cash requirements by a minus sign (-).

Line 6 - Enter the net total of the cash flow adjustments shown under line 5. This line equals the signed algebraic sum of line 5.

Line 7 - Enter the total computable and Federal share amounts of the State and Local Administration estimates reported on line 17 of Form HCFA-25I for the appropriate fiscal year.

Line 8 - Enter the net total of lines 6 and 7; i.e., the fiscal year State and Local Administration estimates plus or minus the cash flow adjustments.

Form HCFA-25C Cross References

1. Line 3, Columns A, B, and C must equal Form HCFA-25D, line 28, Columns A, C, and E.
2. Line 3, Columns D, E, and F must equal Form HCFA-25D, line 28, Columns B, D, and F.
3. Line 7, Columns A, B, and C must equal Form HCFA-25I, line 17, Column A for the appropriate fiscal year.
4. Line 7, Columns D, E, and F must equal Form HCFA-25I, line 17, Column B for the appropriate fiscal year.
5. Lines 4 and 8 must equal Form HCFA-25A, lines 5 and 10 for FY 1 and FY 2.

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STATEMENT OF ANNUAL CASH FLOW DIFFERENCES
(IN THOUSANDS) CHART
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